Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

By e-mail CommentLetters@iasb.org and by post

9 June 2006

Ms. Jenny Lee
Project Manager
IFRS 2 Amendment
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms. Lee,

Comments on IASB Exposure Draft of Proposed Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The Hong Kong Institute of Certified Public Accountants welcomes the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the appendix for your consideration.

In general, we do not support the proposed amendments to IFRS 2. In our submission on D11 *Changes in Contributions to Employee Share Purchase Plans,* we commented that the proposed treatments in D11 were rule-based and the basis for proposing such treatments was weak as it failed to take into account the substance of the transactions. We consider that the proposed amendments to IFRS 2 would merely codify the treatments proposed in D11 and therefore have similar concerns about the proposed amendments to IFRS 2.

If you have any questions on our comments, please do not hesitate to contact me at patricia@hkicpa.org.hk.

Yours sincerely,

Patricia McBride
Director, Standard Setting

PM/EH/al

Hong Kong Institute of CPAs

Responses to the questions raised
in the IASB Exposure Draft of Proposed Amendments to
IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

Question 1 – Vesting conditions

The Exposure Draft proposes that vesting conditions should be restricted to performance conditions and service conditions.

Do you agree? If not, what changes do you propose, and why?

While we agree that greater clarity about the vesting conditions is useful, we do not consider restricting vesting conditions to performance conditions and service conditions would achieve this. In particular, the meaning of performance conditions is undefined and thus would be subject to misinterpretation. We also consider that the restriction would hinder the exercise of judgement (as the proposal appears to be rule-based rather than principle-based) and potentially preclude the reflection of the economic substance of share-based payments schemes.

We therefore are of the view that further research should be undertaken about the range of features existed in share-based payment schemes before proceeding forward with this proposal.

Question 2 – Cancellations

The Exposure Draft proposes that cancellations by parties other than the entity should be accounted for in the same way as cancellations by the entity.

Do you agree that all cancellations should be treated in the same way? If not, please specify the nature of any differences between types of cancellations and explain how they influence the selection of appropriate accounting requirements.

We share the concern of the IASB that having a difference in treatment for a cancellation depending on the party who made the cancellation would create incentives for entities to structure transactions in order to achieve a desired accounting result. The potential for creating such incentives should not override the fundamental principle that financial statements should reflect the substance of transactions. We have reservations about the proposed treatment on cancellations as it would hinder the exercise of judgement (as the proposal appears to be rule-based rather than principle-based) and preclude the reflection of the economic substance of many share-based payment arrangements. In particular, we are concerned about the Board's justification for the proposals in BC 10 which assumes that the probability of cancellation by parties other than the entity would be reliably incorporated into the fair value measurement of the equity instrument. We doubt that measurement techniques are sophisticated enough at this time to be relied upon in this instance.

We envisage that there are some circumstances where the nature of the cancellation by employees is sufficiently different from an entity cancellation so as to warrant a different accounting treatment until measurement techniques become more developed. This might include the example of a voluntary change to a new scheme by an *employee on the condition that his rights under the old scheme are to be cancelled. In this case, we consider that accelerating the recognition of the remaining expense might not be appropriate.*

We therefore urge the IASB to permit varying treatments for cancellations depending on whether past services have or have not been rendered and further services originally anticipated will or will not be rendered.

Question 3 – Effective date and transition

The proposed changes would apply to periods beginning on or after 1 January 2007, and would be required to be applied retrospectively. Earlier application would be encouraged.

Are the proposed effective date and transition appropriate? If not, what do you propose, and why?

If the IASB decides to proceed with the proposals, we agree with the proposed effective date, subject to the proposals being finalised during 2006. We do not support retrospective amendment to be required for schemes that have vested on or before 31 December 2007 as calculation of the required adjustments may be onerous.